SAN JUAN HEALTH SERVICES DISTRICT

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

December 31, 2006 and 2005

HANSEN, BARNETT & MAXWELL, P.C.
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

SAN JUAN HEALTH SERVICES DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
San Juan Health Services District
Monticello, Utah

We have audited the accompanying balance sheets of San Juan Health Services District (the "District"), a component unit of San Juan County, as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Juan Health Services District as of December 31, 2006 and 2005, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated June 26, 2007, on our consideration of San Juan Health Services District's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Hansen Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
June 26, 2007

SAN JUAN HEALTH SERVICES DISTRICT
SAN JUAN HOSPITAL AND CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

As management of San Juan Health Services District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2006 and 2005.

History and Background of San Juan Health Services District

The Health District was organized in 1988 as a non-profit entity and operates the San Juan Hospital, Birthing Center and Clinics. It is considered a component unit of San Juan County, Utah. The District receives an annual property tax levy distribution from San Juan County to provide financial assistance in operating the District. The Health District consists of the Hospital, birthing center, and two clinics. The hospital services the medical needs of individuals residing in San Juan County, Utah and the surrounding area.

Financial Highlights

These financial statements were prepared in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments.*

Overview of the Financial Statements

As required by GASB No. 34 there are three basic financial statements which provide information on the District as a whole: the Balance Sheet; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows.

Balance Sheet

The Balance Sheet presents the assets, liabilities, and net assets of the District as of the end of the fiscal year. The Balance Sheet is a point in time financial statement that provides a fiscal snapshot of the District.

Readers of the Balance Sheet are able to determine the assets available to continue the operations of the District. They are also able to determine how much the District owes vendors, employees and lending institutions. Finally, the Balance Sheet provides the amount of net assets (assets minus liabilities) and their availability for expenditure by the District.

Net assets are divided into three major categories. The first category, "restricted." represents restricted revenues received by the District which have not yet been expended for their intended purpose. The next category, "invested in capital assets, net of related debt," provides the District's equity in property, plant and equipment owned by the District. The final category is "unrestricted." These net assets are available to the District for any lawful purpose of the District.

Condensed Balance Sheets

Assets	2006	2005	2004
Current and other assets	$ 2,507,802	$ 2,582,683	$ 2,798,830
Capital assets, net	1,973,455	2,407,518	2,899,773
Total Assets	4,481,257	4,990,201	5,698,603
Liabilities			
Current liabilities	720,427	670,016	675,367
Long-term liabilities	482,543	517,013	557,223
Total Liabilities	1,202,970	1,187,029	1,232,590
Net Assets			
Restricted	-	-	3,016
Invested in capital assets, net of related debt	1,957,287	2,369,025	2,841,071
Unrestricted	1,321,000	1,434,147	1,621,926
Total Net Assets	$ 3,278,287	$ 3,803,172	$ 4,466,013

For 2006, the District's current assets of $2.5 million were sufficient to cover current liabilities of $720,000 (current ratio of 3.5). Also the total assets of $4.5 million are sufficient to cover total liabilities of $1.2 million (debt ratio of 0.3).

For 2005, the District's current assets of $2.6 million were sufficient to cover current liabilities of $709,000 (current ratio of 3.7). Also the total assets of $5.0 million are sufficient to cover total liabilities of $1.2 million (debt ratio of .2).

Capital Assets

Capital assets consist of buildings and improvements, equipment, and land and improvements used in the District's operations. During the years ended December 31, 2006 and 2005 the balance of capital assets, net of accumulated depreciation, decreased. The decrease in the balance can be explained by the recognition of depreciation expense on existing assets in the absence of additional expenditures for capital assets. The decline in net capital assets also contributed to the decline in total net assets for the years ended December 31, 2006 and 2005. See Note 4 in the notes to the financial statements for additional analysis of capital assets.

Long-term Debt

Long-term debt consists of a promissory note and an obligation under a capital lease. The District did not enter into any new debt during the years ended December 31, 2006 and 2005. Hence, long-term debt activity consisted solely of principal payments on existing debt. See Note 5 in the notes to the financial statements for additional analysis of long-term debt.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Balance Sheet are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the District, both operating and non-operating, and the expenses paid by the District, both operating and non-operating.

Operating revenues are received for providing health care service to patients of the District. Operating expenses are those expenses paid to be able to provide the services provided in return for the operating revenues. Non-operating revenues are revenues received for which services are not provided.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	2006	2005	2004
Total Operating Revenue	$ 6,618,298	$ 6,363,298	$ 7,331,292
Total Operating Expenses	8,445,859	8,234,758	8,686,902
Net Operating Loss	(1,827,561)	(1,871,460)	(1,355,610)
Net Non-Operating Gains	1,302,676	1,208,619	1,080,525
Change in Net Assets	(524,885)	(662,841)	(275,085)
Net Assets, Beginning of Year	3,803,172	4,466,013	4,741,098
Net Assets, End of Year	$ 3,278,287	$ 3,803,172	$ 4,466,013

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the District during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the District. The second section reflects the cash received and spent for non-operating and non-capital financing activities. The third section reflects the cash flows from capital and related financing activities. The fourth section deals with cash flows from investing activities. The fifth section shows the net change in cash and its effect on the District's cash and cash equivalents.

Condensed Statements of Cash Flows

Cash From:	2006	2005	2004
Operating activities	$ (1,169,751)	$ (1,307,927)	$ (910,067)
Non-capital financing activities	1,306,854	1,186,248	1,109,334
Capital and related financing activities	(98,814)	(95,853)	(227,552)
Investing activities	24,532	13,678	5,451
Net Change in Cash	62,821	(203,854)	(22,834)
Cash, Beginning of Year	765,344	969,198	992,032
Cash, End of Year	$ 828,165	$ 765,344	$ 969,198

Economic Outlook

The District transitioned from a Medicare PPS (fee for service) hospital on December 14, 2006 to a Critical Access Hospital. The new designation allows the District to be reimbursed on costs rather than the DRG system. This status should be positive for the District in that skilled patients can be admitted for post acute care. In the fall of 2006, the Red Mesa Arizona Medical Center opened for Indian Health Service (IHS) enrollees. This facility will draw southern based patients away from the District's facilities. While initially a clinic, overnight beds will be added in late 2008. Also, in late 2006, HUD and USDA funding was secured for the Blue Mountain Hospital in Blanding, Utah. Once opened in the spring of 2008, this facility will have a significant impact upon San Juan Hospital. Though the economic condition in San Juan County is depressed, there is optimism for the future. Mining, specifically, copper and uranium will fuel a number of jobs over the next few years. The District's overall financial position is adequate. Additional service lines will be evaluated for the future.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions regarding any of the information provided in this report or requests for additional information should be addressed to Lyman Duncan at the following address.

San Juan Health Services District
PO Box 308
Monticello, UT 84535

SAN JUAN HEALTH SERVICES DISTRICT
BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 828,165	$ 765,344
Patient accounts receivable, less allowance for doubtful accounts and contractual adjustments of $783,028 and $611,666 in 2006 and 2005, respectively	1,356,921	1,457,995
Ad valorem taxes receivable	39,492	52,597
Inventory of supplies	264,867	258,118
Prepaid expenses	18,357	48,629
Total Current Assets	2,507,802	2,582,683
Capital Assets, Net	1,973,455	2,407,518
Total Assets	$ 4,481,257	$ 4,990,201
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 99,584	$ 186,187
Accrued payroll and related liabilities	394,174	323,000
Estimated third party payable	76,644	5,101
Current maturities of long-term debt	34,507	40,210
Unamortized bond discount	91,811	91,811
Other current liabilities	23,707	23,707
Total Current Liabilities	720,427	670,016
Long-Term Debt - Net of Current Maturities	482,543	517,013
Total Liabilities	1,202,970	1,187,029
Net Assets		
Restricted	-	-
Invested in capital assets, net of related debt	1,957,287	2,369,025
Unrestricted	1,321,000	1,434,147
Total Net Assets	3,278,287	3,803,172
Total Liabilities and Net Assets	$ 4,481,257	$ 4,990,201

The accompanying notes are an integral part of these financial statements.

SAN JUAN HEALTH CARE SERVICES DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Operating Revenue		
Net patient service revenue	$ 6,478,627	$ 6,179,585
Other operating revenue	139,671	183,713
Total Operating Revenue	6,618,298	6,363,298
Operating Expenses		
Salaries and benefits	4,526,273	4,367,162
Professional fees and other purchased services	1,265,952	1,168,870
Supplies	826,032	746,888
Utilities	166,041	150,096
Repairs and maintenance	308,417	313,993
Insurance	331,571	307,601
Travel, dues and education	20,685	36,794
Provision for bad debts	374,673	438,944
Depreciation and amortization	477,100	526,786
Other	149,115	177,624
Total Operating Expenses	8,445,859	8,234,758
Loss From Operations	(1,827,561)	(1,871,460)
Nonoperating Revenues (Expenses)		
Property tax revenues	615,199	494,597
Interest income	24,532	13,678
Net loss on disposal of assets	-	(4,095)
Grants and contributions	678,550	724,014
Interest expense	(15,605)	(19,575)
Net Nonoperating Revenue	1,302,676	1,208,619
Change in Net Assets	(524,885)	(662,841)
Net Assets, Beginning of Year	3,803,172	4,466,013
Net Assets, End of Year	$ 3,278,287	$ 3,803,172

The accompanying notes are an integral part of these financial statements.

SAN JUAN HEALTH SERVICES DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Cash Flows From Operating Activities		
Cash received from patients and third-party payers	$ 6,276,570	$ 5,800,475
Other operating cash receipts	139,671	183,713
Cash paid for operating goods	(1,864,941)	(1,703,277)
Cash paid to employees	(5,721,051)	(5,588,838)
Net Cash From Operating Activities	(1,169,751)	(1,307,927)
Cash Flows From Noncapital Financing Activities		
Subsidy from governmental unit	628,304	462,234
Grants and donations	678,550	724,014
Net Cash From Noncapital Financing Activities	1,306,854	1,186,248
Cash Flows From Capital Financing Activities		
Capital expenditures	(43,036)	(38,627)
Interest paid on long-term debt	(15,605)	(19,575)
Principal payments on long-term debt	(40,173)	(37,651)
Net Cash From Capital Financing Activities	(98,814)	(95,853)
Cash Flows From Investing Activities		
Interest income	24,532	13,678
Net Cash From Investing Activities	24,532	13,678
Net Change in Cash and Cash Equivalents	62,821	(203,854)
Cash and Cash Equivalents at Beginning of Year	765,344	969,198
Cash and Cash Equivalents at End of Year	$ 828,165	$ 765,344

The accompanying notes are an integral part of these financial statements.

SAN JUAN HEALTH SERVICES DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Reconciliation of loss from operations to net cash from operating activities:		
Loss from operations	$ (1,827,561)	$ (1,871,460)
Adjustments to reconcile loss from operations to net cash from operating activities:		
Depreciation and amortization	477,100	526,786
Provision for bad debts	374,673	438,944
Changes in current assets and liabilities:		
Patient accounts receivable	(273,599)	(421,124)
Estimated third party settlement	71,543	42,014
Inventory and prepaid expenses	23,523	(10,076)
Accounts payable and accrued expenses	(15,430)	(13,011)
Net Cash Flow From Operating Activities	$ (1,169,751)	$ (1,307,927)

Supplemental Disclosures of Cash Flow Information:
The District disposed of equipment with original costs totaling $449,064 and accumulated depreciation of $444,968, resulting in a noncash loss of $4,096 during the year ended December 31, 2005.

The accompanying notes are an integral part of these financial statements.

SAN JUAN HEALTH SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — San Juan Health Services District (the "District") is organized as a public not-for-profit corporation and is considered a component unit of San Juan County, Utah. The District is included as a discretely presented component unit in the general purpose financial statements of that county. The District operates a 25-bed acute-care hospital located in Monticello, Utah, a 3-bed birthing center located in Blanding, Utah, and clinics in Monticello, and Blanding, Utah.

The District received approval from Medicare to be designated as a critical access hospital effective December 14, 2006. Critical access hospitals are on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary.

Accounting Policies — The accounting policies of the District conform to accounting principles generally accepted in the United States applicable to government entities. The following is a summary of the more significant accounting policies:

Enterprise Funds
The District follows the accounting principles which are applicable to an enterprise or proprietary fund. Revenues and expenses are recognized with a measurement focus on capital maintenance using the accrual basis of accounting, wherein revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Substantially all revenues and expenses are subject to accrual. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to a private business where the intent of the District is that the costs of providing goods and services on a continuing basis be financed or recovered primarily from user charges, and where the governing body has decided that periodic determination of revenues earned and expenses incurred is appropriate for capital maintenance, public policy, management control, and accountability.

Accounting Standards — In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to implement only FASB Statements and Interpretations, APB Opinions and ARBs issued prior to November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — Cash includes short-term investments with a maturity of three months or less, including amounts whose use is limited by board discretion. Cash, depending on source of receipts, is pooled, except when legal requirements dictate the use of separate accounts.

Patient Accounts Receivable — The District has receivables from its patients, substantially all of whom are residents from the area served by the District. An allowance for uncollectible accounts and third party payor adjustments is established by charges to operations, as determined by management, to cover anticipated losses. Individual accounts receivable are charged to the allowance when collection appears doubtful. At such time, the accounts are referred to collection agencies. Adjustments for third party payors are charged to operations in the period payments are received. Provision for doubtful accounts is shown separately from contractual revenue adjustments, which are netted against patient service revenues.

Inventories **—** Inventory is accounted for using the consumption method, whereby inventory is recognized at the time purchases are made and expenditures are recognized as an adjustment to the physical count. At year end, inventories are stated at the lower of cost or market, on the first-in, first-out basis.

Property Tax Calendar — The San Juan County Treasurer acts as agent for the District in collecting and distributing property tax revenues. Utah statutes establish the process by which taxes are levied and collected. The County assessor is required to assess real property as of January 1 and complete the valuation by May 15. By July 21, the County Treasurer mails property tax notices to the owners. Between August 1 and August 15, a property owner may petition the County Board of Equalization for an adjustment. The County Auditor approves all changes by November 1, at which date, the completed assessments are to be delivered to the County Treasurer. Property tax notices with a due date of November 30 are mailed to property owners. Delinquent taxes are subject to a 2% penalty, with a minimum of ten dollars. If the taxes are not paid by January 15 of the following year, they are subject to an interest charge equal to the federal discount rate. The interest accrues from January 1. If taxes remain delinquent by May of the fifth year, the County will advertise and sell the property at a tax sale.

As of December 31, 2006 and 2005, the District had accrued an ad valorem taxes receivable of $39,492 and $52,597, respectively. This receivable represents property taxes levied but uncollected by the County Treasurer at December 31.

Capital Assets — Capital asset acquisitions are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of donations. Capital assets are defined as assets with a cost of at least $5,000. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. The estimated useful lives are as follows:

Land improvements	5-25 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Donor Restricted Funds — Donor-restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of unrestricted funds on which donors or grantors place restrictions or that arise as a result of the operations of the District for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted fund. At December 31, 2006 and 2005, the District had no restricted net assets that had not yet been spent for the grantor’s intended purpose.

Risk Management — The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness, and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Statement of Operations — For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenue and expenses.

Fair Value of Financial Instruments — The District has a number of financial instruments, none of which are held for trading purposes. As of December 31, 2006 and 2005, the District's financial instruments include accounts receivable, accounts payable, and a note payable. The District estimates that the fair value of all financial instruments at December 31, 2006 and 2005 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying financial statements.

NOTE 2 – CASH DEPOSITS & INVESTMENTS

Custodial Credit Risk - Deposits — Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The carrying amount of the District's deposits with financial institutions was $827,616 and $764,795, the bank balance was $980,902 and $858,762, and petty cash was $549 and $549 at December 31, 2006 and 2005, respectively. Of the carrying amount of deposits, $527,616 and $464,795 was in excess of FDIC limits at December 31, 2006 and 2005, respectively.

Investment Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Summary — The above described Deposits are summarized and presented in the financial statements at cost in accordance with the following analysis:

	2006	**2005**
Petty cash	$ 549	$ 549
Carrying amount of deposits	827,616	764,795
Total	$ 828,165	$ 765,344

NOTE 3 – ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

Patient accounts receivable reported as current assets by the District at December 31, 2006 and 2005 consisted of the following amounts.

	2006	**2005**
Receivable from patients and their insurance carriers	$ 1,287,030	$ 1,396,978
Receivable from Medicare	686,903	476,424
Receivable from Medicaid	166,016	196,259
Total patient accounts receivable	2,139,949	2,069,661
Less allowance for uncollectible amounts	(783,028)	(611,666)
Patient accounts receivable, net	$ 1,356,921	$ 1,457,995

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2006 and 2005, was as follows:

	2006	2005
Other third-party payors	42 %	52 %
Medicare	32	23
Patients	18	16
Medicaid	8	9
	100 %	100 %

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 is as follows:

	Balance December 31, 2005	Additions	Retirements	Balance December 31, 2006
Capital assets not being depreciated				
Land	$ 2,645	$ -	$ -	$ 2,645
Total capital assets not being depreciated	2,645	-	-	2,645
Capital assets being depreciated				
Land improvements	142,400	-	-	142,400
Buildings and improvements	4,816,850	12,036	-	4,828,886
Equipment	4,423,789	31,001		4,454,790
Total capital assets being depreciated	9,383,039	43,037	-	9,426,076
Less: Accumulated depreciation				
Land improvements	(106,202)	(7,613)	-	(113,815)
Buildings and improvements	(3,381,720)	(140,452)	-	(3,522,172)
Equipment	(3,490,244)	(329,035)	-	(3,819,279)
Total accumulated depreciation	(6,978,166)	(477,100)	-	(7,455,266)
Total capital assets being depreciated, net	2,404,873	(434,063)	-	1,970,810
Total capital assets, net	$ 2,407,518	$ (434,063)	$ -	$ 1,973,455

Capital asset activity for the year ended December 31, 2005 is as follows:

	Balance December 31, 2004	Additions	Retirements	Balance December 31, 2005
Capital assets not being depreciated				
Land	$ 2,645	$ -	$ -	$ 2,645
Total capital assets not being depreciated	2,645	-	-	2,645
Capital assets being depreciated				
Land improvements	142,400	-	-	142,400
Buildings and improvements	4,823,600	-	(6,750)	4,816,850
Equipment	4,827,476	38,627	(442,314)	4,423,789
Total capital assets being depreciated	9,793,476	38,627	(449,064)	9,383,039
Less: Accumulated depreciation				
Land improvements	(98,568)	(7,634)	-	(106,202)
Buildings and improvements	(3,273,724)	(114,667)	6,671	(3,381,720)
Equipment	(3,524,056)	(404,485)	438,297	(3,490,244)
Total accumulated depreciation	(6,896,348)	(526,786)	444,968	(6,978,166)
Total capital assets being depreciated, net	2,897,128	(488,159)	(4,096)	2,404,873
Total capital assets, net	$ 2,899,773	$ (488,159)	$ (4,096)	$ 2,407,518

NOTE 5 – LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2006 is as follows:

	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006	Due Within One Year
Promissory note to San Juan County with 2.5 percent interest, payable in monthly installments of $2,551,due December 2027, unsecured	$ 518,730	$ -	$ (17,848)	$ 500,882	$ 18,339
Obligations under capital lease at an imputed interest of 10.0 percent collateralized by leased equipment with cost of $99,542	38,493	-	(22,325)	16,168	16,168
Total long-term debt	$ 557,223	$ -	$ (40,173)	$ 517,050	$ 34,507

Long-term debt activity for the year ended December 31, 2005 is as follows:

	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Promissory note to San Juan County with 2.5 percent interest, payable in monthly installments of $2,551,due December 2027, unsecured	$ 536,172	$ -	$ (17,442)	$ 518,730	$ 17,885
Obligations under capital lease at an imputed interest of 10.0 percent collateralized by leased equipment with cost of $99,542	58,702	-	(20,209)	38,493	22,325
Total long-term debt	$ 594,874	$ -	$ (37,651)	$ 557,223	$ 40,210

The following is a summary of the future maturities of the promissory note outstanding at December 31, 2006:

Year Ending December 31,	Principal	Interest	Total
2007	$ 18,339	$ 12,270	$ 30,609
2008	18,804	11,805	30,609
2009	19,281	11,328	30,609
2010	19,770	10,839	30,609
2011	20,272	10,337	30,609
2012-2016	109,339	43,708	153,047
2017-2021	123,924	29,123	153,047
2022-2026	140,892	12,155	153,047
2027	30,261	348	30,609
Total	$ 500,882	$ 141,913	$ 642,795

Obligations under capital lease at December 31, 2006 represent an equipment lease payable in monthly installments including interest. This capital lease has imputed interest of 10.0 percent. The lease is secured by equipment, with a stated cost of $99,542 and accumulated amortization of $86,270 at December 31, 2006.

Scheduled repayments on capital lease obligations for the next five years are as follows:

Year Ending December 31,	
2007	$ 16,780
Less amount representing interest on capital lease obligations	(612)
Total	$ 16,168

NOTE 6 – NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare — Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostics, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The Medicare cost reports through the year ended December 31, 2005 have been submitted to the intermediary and have been settled.

Medicaid — Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a charge reimbursement methodology. Outpatient and other ancillary services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology.

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

A summary of patient service revenue and contractual adjustments is as follows:

	2006	2005
Total Patient Service Revenue	$ 9,154,689	$ 8,497,091
Contractual Adjustments:		
Medicare	(1,381,412)	(1,110,960)
Medicaid	(478,020)	(646,039)
Other	(766,843)	(383,999)
Total Contractual Adjustments	(2,626,275)	(2,140,998)
Charity Care	(49,787)	(176,508)
Net Patient Service Revenue	$ 6,478,627	$ 6,179,585

NOTE 7 – CHARITY CARE

As part of its community service, the District provides services for care of the poor. The District provides a certain amount of patient care and other services at a discounted rate or free of charge to needy persons. During the years ended December 31, 2006 and 2005, the District recorded charity care allowances of $49,787 and $176,508, respectively.

NOTE 8 – CONTINGENCIES AND COMMITMENTS

Litigation — There is current litigation against the District filed by three former employees. All three plaintiffs allege that they have been wrongfully discriminated against on the basis of their race as Navajos and that they have been deprived of various civil rights. Near the end of 1999, the Navajo Nation District Court entered a preliminary injunction that reinstated the plaintiffs to the positions that each held at the time of the alleged discrimination. Thereafter, the plaintiffs filed suit in the United States District Court for Utah to enforce the Navajo Tribal Court judgment and added numerous other plaintiffs whose claims were unrelated to these claims brought by the three plaintiffs. The Federal District Court denied the plaintiffs' claims on the basis that the Navajo Tribal Court lacked jurisdiction over the District and its agents. In October 2005, the district court found that the tribal court lacked jurisdiction over the majority of the claims, with one minor exception. Plaintiffs sought reconsideration of the October 2005 ruling; their motion was denied and they appealed once again with the Tenth Circuit Court. The District defendants cross-appealed that part of the district court's ruling finding tribal court jurisdiction for certain of the plaintiffs' claims. The appeals are fully briefed, oral argument has been made, and the decision is pending in the Tenth Circuit Court.

During the pendency of the first appeal to the Tenth Circuit, the parties litigated the claims of the remaining non-tribal court plaintiffs. In November 2002, the district court ruled from the bench dismissing all of the non-tribal court claims. In June 2005, the district court incorporated into a written ruling a dismissal from November 2002 all of the non-tribal court claims. The non-tribal court plaintiffs sought reconsideration, which was denied, and subsequently appealed. The non-tribal court plaintiffs appealed the June 2005 ruling to the Tenth Circuit, and their appeal has been combined with the October 2005 appeal and the cross-appeal of the District defendants. Because the outcome of this litigation is unknown, no amounts have been accrued in these financial statements.

In late 2006, an applicant for employment with the District who was not offered employment, filed a Charge of Discrimination with the Utah Labor Commission alleging he was not hired due to age discrimination. The Utah Labor Commission found in favor of The District. However, the plaintiff appealed, and the decision on the appeal remains pending in the Utah Labor Commission. The District is unlikely to receive a decision on this matter until sometime in 2008. Because the outcome of this Charge is unknown, no amounts have been accrued in these financial statements.

NOTE 9 – RETIREMENT PLAN

The District has a defined contribution profit sharing plan covering substantially all employees with one year of service. Prior to January 2003, employees had to be 18 years of age or older to be eligible to participate in the plan. Subsequent to January 2003, employees have to be 21 years of age or older to be eligible to participate. The Plan is administered by Equitable Life Assurance Society of the United States. Prior to January 2003, vesting took place over six years. Subsequent to January 2003, vesting takes place after one year. At the end of the vesting period, the participant is 100% vested. The funds are invested in various funds of Equitable Life Assurance and are directed by the participants.

The District has discretion as to the amount it contributes to the plan on behalf of its employees. The District's contribution is limited to 10% of qualified wages. The total amount of employer contributions for 2006 and 2005 was $290,537 and $298,651, respectively.

NOTE 10 – DEFERRED COMPENSATION AGREEMENT

The District offers a deferred compensation plan for its employees. The plan is structured and operated in accordance with the provisions of Internal Revenue Code Section 457. The plan is available to all eligible District employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all assets and rights purchased with those amounts, and all income attributable to those amounts, assets or rights are solely the assets and rights of the employee (without being restricted to the provisions of benefits under the Plan), and are not subject to the claims of the District's general creditors.

Employees who elect to participate in the plan do so via payroll deductions. On behalf of those employees, the District forwards their deductions to a third party administrator who acts as trustee for the employees' investment. All plan assets are held in trust by a third party administrator. In accordance with GASB 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," the District has not included these assets in its investments. The District has no trustee responsibilities or claim on these funds.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
San Juan Health Services District
Monticello, Utah

We have audited the financial statements of San Juan Health Services District as of and for the year ended December 31, 2006, and have issued our report thereon, dated June 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting
In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the significant deficiency described in the accompanying schedule of findings and responses constitutes a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended for the information of the board, management and the Utah State Auditor's Office.

Hansen Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
June 26, 2007

SAN JUAN HEALTH SERVICES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2006

Finding: During the financial statement audit, we noted that the allowance against patient accounts receivable for third party payor adjustments had not been adjusted at year end. It is the district's policy to adjust this allowance to an amount determined by management to be sufficient to cover anticipated losses. Failure to adjust the allowance for third party payor adjustments could lead to financial statement misstatements. We recommend the District adjust the allowance on a monthly basis.

Management's Response: We have not had a policy to adjust the allowance accounts during the year. We perform calculations throughout the year to share with management and the Board, but we do not make journal entries to adjust the allowance accounts to our calculations. Based on this recommendation, we will make an effort to adjust the allowance accounts prior to our annual financial audit.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH STATE OF UTAH LEGAL REQUIREMENTS APPLICABLE TO AUDITS OF LOCAL GOVERNMENTS IN UTAH

Board of Directors
San Juan Health Services District
Monticello, Utah

We have audited the financial statements of San Juan Health Services District (the "District"), for the year ended December 31, 2006, and have issued our report thereon dated June 26, 2007. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Special Districts
Other General Compliance Issues

The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, San Juan Health Services District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

Hansen Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
June 26, 2007